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AUTHOR Maxey, Phyllis F.; Meier, Stephen C.
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ABSTRACT

One of a series of units on business issues for high school students, this packet uses the example of hamburger wars ("price wars" between hamburger stands) to introduce students to the ways in which businesses operate in a competitive environment. A teacher's guide and student materials are provided in two separate sections. Following an overview of activities and objectives, the teacher's guide outlines daily lessons of reading, discussion, and activities. Also included are answer keys, recommendations for supplemental activities, teacher background information and discussion guides, and suggestions for using business professionals as classroom resources. In the student materials section, students are introduced to a variety of business practices such as price fixing, mergers, trusts, and monopolies, and their impact on business and the consumer. Business decision-making, business organization, and government regulation are also examined. A total of nine activities include fictional and real case studies of competition (hamburger companies) and legal disputes (American Telephone and Telegraph), readings on various types of business organization, a vocabulary worksheet, and an application exercise in which students choose actions that would violate anti-trust laws. (LP)

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THE HAMBURGER WAR

Instructor's Guide

Authors: Phyllis F. Maxey
Stephen C. Meier
Business Issues in the Classroom
Constitutional Rights Foundation
Los Angeles, California
Revised, 1983

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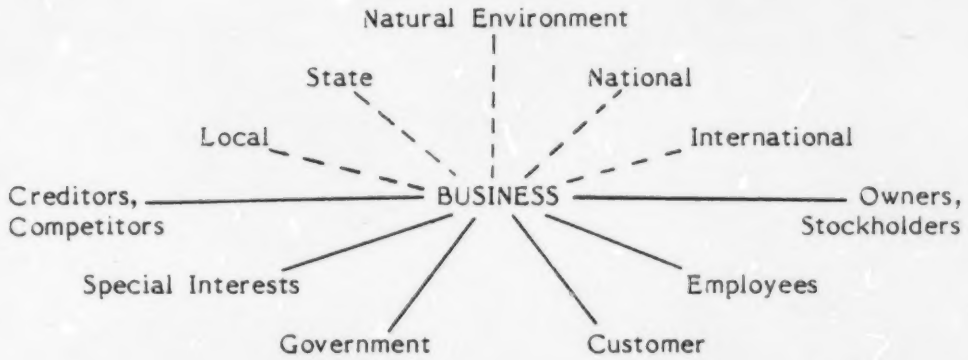
THE HAMBURGER WAR

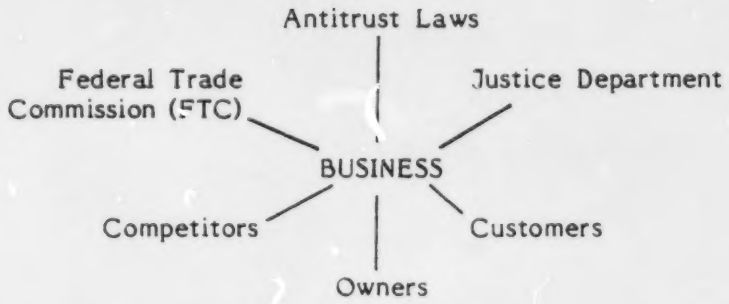
OVERVIEW

Business Issues in the Classroom (BIC) introduces students to exciting, difficult, and complex decisions that face the business community today. Case studies and activities help students understand the setting in which American companies must function. This business environment includes many groups with conflicting interests: stockholders, consumers, employees, special interest groups, business competitors and creditors, and government. These groups affect business and, in turn, are affected by business decisions. Each BIC lesson plan focuses on a specific issue which highlights a particular relationship in the business decision-making environment.



THE BUSINESS DECISION-MAKING ENVIRONMENT

This unit introduces students to various ways in which business operates in a competitive environment. Price fixing, mergers, trusts, and monopolies are examined for their impact on business and the consumer. The Hamburger War case studies place the student in the role of the business owner struggling with a decision, and help students see the economic and personal consequences of those decisions. The role of government in enforcing antitrust laws is highlighted in the AT&T case study.



THE BUSINESS COMPETITION ENVIRONMENT

Activities include fictional and actual case studies; readings on types of business organization (sole proprietorship, partnership, corporation, conglomerate, holding company); readings on monopoly and antitrust; an application activity in which students choose those actions that would violate antitrust laws; and a vocabulary worksheet reviewing new terms used in the lesson.

OBJECTIVES

Students will be able to:

1. explain the benefits of competition in the marketplace for business and the consumer.
2. describe several different forms of business organization (sole proprietorship, partnership, conglomerate, holding company, trust).
3. describe the purpose of antitrust laws and give examples of illegal business practices.

TIME FRAME

5 or more class periods

CLASSROOM APPLICATIONS

DAY 1 Reading and Discussion: Have students read aloud the introduction, p. 1, and the first case study, Hamburger War I, p. 2-3. Using the

discussion guide provided on p. 8-10 in the Teacher Background section, discuss the case from the students', economic, and legal viewpoints.

Assign Hamburger War II, p. 4-5, for homework. Have the students answer the discussion questions in preparation for tomorrow's class.

DAY 2 Discussion: Discuss students' answers to the questions about Hamburger War II, using the guide on p. 11. One of the issues raised in this case is government assistance to failing businesses. You might point out that there are many cases in which government offers assistance such as loans to vital industries (weapons manufacturers, aircraft companies, farmers, and automobile companies). Such assistance is often controversial because it conflicts with the ideals of free enterprise. In Eddie's case there would probably be little help available because, unlike a large corporation such as Chrysler, his business is not crucial to our economy.

Have students read aloud or silently "Business Organization," p. 6-7, and the newpaper article on p. 8 which describes a real hamburger war.

DAY 3 Reading and Small Group Discussion: Have students read "Monopolies and Markets," p. 9-11.

Divide the class into small groups and have them discuss each of the cases on p. 12, "Business Practices: What's Fair and What Isn't?" Each small group should report their answers on paper and turn them in by the end of class.

DAY 4 Discussion and Concept Building: Discuss the five cases about antitrust violations. On p. 4-5 of this guide are the answers to each case. Review some of the vocabulary from these readings by using the Reading Review questions on p. 11. Answers to these questions are on p. 5 of this guide.

DAY 5 Discussion: Refer students to the AT&T case, p. 13-14. A new concept is introduced in this case: holding company. You may wish to have a

business person join the class to discuss holding companies and other forms of business organization. Answers to the discussion questions for the AT&T case are on p. 6-7 of this guide. The Vocabulary Worksheet, p. 15, will help you assess student understanding of the new terms introduced in this unit.

Follow-up Activities: This unit raises many issues that can be pursued in more depth if time permits. A parallel to the break-up of AT&T is the break-up of Standard Oil in 1911 as well as other trusts. Another topic in history is the transformation of business and society during the Industrial Revolution. Films or novels might help students better understand "the before and after" of this dramatic change. A controversy that has often surrounded antitrust cases is the issue of bigness. Is big business something to be feared? The multinational corporation has its critics as well as its advocates: students might explore this type of business organization as well as other forms of big business.

USING A RESOURCE PERSON IN THE CLASSROOM

The Business Issues in the Classroom Program (BIC) has a talented group of business professionals who are prepared to teach one day of this unit. At least two weeks in advance, call the Constitutional Rights Foundation at (213) 473-5091 and ask the BIC placement coordinator to arrange a classroom visit.

The business resource person could participate in the following ways:

Days 1, 2: leading a discussion of the case studies Hamburger War I, II, AT&T.

Day 3: discussing recent mergers and the reasons business grows in this way.

Day 5: discussing the AT&T case with an emphasis on public utilities and how they are organized.

Monopolies and Markets, Answers to Reading Review, p. 11

1. A corporation is chartered by the state and may issue shares of stock. The owners are often separate from the management of the corporation. In

partnerships and sole proprietorships, the owners may keep all of the profits, but are also responsible for all of the debts. Corporations have limited liability, so the stockholders can only lose their investment in stock; they are not responsible for the debts of the company.

2. A stockholder is an investor who is seeking to make a profit. One of the advantages of owning stock rather than investing in real estate is it can be quickly sold if the investor should need the cash. In either case, the investor wants to see a good return in the short run or the long run.
3. A conglomerate is a combination of companies in different markets. For example, Mobil Oil, besides being an oil producer, also owns Montgomery Wards, a department store chain.
4. A trust is a monopoly in which businesses in the same industry turn in their shares of stock for shares in the trust. The market is then divided and prices fixed so that each of the businesses can make a profit. There is no more competition. Trusts eliminate their competitors by including them in the trust or by driving them out of business by temporarily cutting prices.
5. Antitrust laws seek to protect competition in the marketplace. It is illegal for companies to intentionally eliminate competition by price fixing, dividing the market, or merging so that the new company controls a large portion of the market.
6. The Justice Department and the Federal Trade Commission both enforce antitrust laws.

Answers to Business Practices: What's Fair and What Isn't?, p. 12

1. The Federal Trade Commission charged the three cereal companies with "shared monopoly" because of these practices. An FTC administrative law judge ruled that the agency had no grounds for the case, saying that he saw nothing illegal or unfair in the way they conducted their businesses.
2. This is an "innocent" monopoly -- due to a good idea and good business know-how. The company temporarily enjoys a monopoly before all of the competitors rush in with their own products. It is not illegal.

3. This would be an illegal business practice because it creates a horizontal restraint of trade that would lessen competition.
4. This case is becoming increasingly important as companies argue with the FTC and Justice Department about the definition of market. In this case the market is international, and even with the merger, foreign competitors keep the "dingbat" competition vigorous. When foreign companies are active in U. S. sales, they are considered part of the market along with American business.

Answers to Questions on AT&T case, p. 13-14

1. A holding company is a corporation created for the purpose of buying stock in other corporations so that it can control the policies of each of those companies.
2. Public utilities are government-created monopolies; thus regulation becomes necessary because there is no competition to keep prices down and quality of service high. The chaos and confusion of competing telephone lines, sewer systems, and electrical wires is eliminated by having only one telephone company or power company serve a particular area.
3. U. S. District Court Judge Harold Greene was involved in addition to AT&T and the Justice Department.
4. It could invest the money in its other companies for research or manufacturing. It could use the money to begin new companies in data processing, computers, or electronic publishing.
5. Sears is the holding company and the others are the subsidiaries.
6. A holding company is formed so that the parent company can control the policies of other companies. By owning 51% of the voting stock, the parent company can influence the subsidiaries' directors.
7. There is no agreement on the answer to this question. Some would say that business combinations have benefited society because big business has more capital, more expertise, and with the economics of scale, can reduce costs. Others argue that big corporations become burdened with big bureaucracies and stifle competition. They see the pacesetters as the smaller companies

in some of the newly-emerging electronics fields run by aggressive, risk-taking business people.

Answers to Vocabulary Worksheet, p. 15

1. MARKET	2. TRUST	3. STOCK
4. SUBSIDIARY	5. CONGLOMERATE	6. MERGER
7. MONOPOLY	8. INVESTOR	9. HOLDING COMPANY

antitrust laws: Sherman Antitrust Act, Clayton Act, Federal Trade Commission Act, Anti-Merger Act of 1950

monopolies: trusts; government regulated monopolies, such as the utility companies; a new company with a new idea

types of business organization: sole proprietorship, partnership, corporations, conglomerates, holding companies

Corporations: answers will vary

TEACHER BACKGROUND INFORMATION

DISCUSSION GUIDE FOR HAMBURGER WAR I

1. If you were Janet, would you go to the meeting? Why or why not? (Take a poll at this point.)

2. How and why did this "price war" get started? The purpose for this question is to clarify the sequence of events and raise some underlying issues.

   A. How the price war began:
   A new competitor began selling hamburgers at a lower price. One competitor, after losing customers, met the new competitor's price.

   B. Why the price war began:
   Each hamburger store owner made assumptions about the market for his or her products. The market in this case means the opportunity to sell to a group of consumers, who are mostly high school students. Fred opened the first burger stand because he assumed that there would be a market for hamburgers. He was right. Janet followed suit, and she assumed that the market was large enough to support another stand selling burgers at 89¢. What did Eddie assume? He may have felt that he could expand the market by selling 79¢ hamburgers to people who wouldn't pay 89¢ and never ate at Janet's or Fred's. Or, he may have felt he could attract customers away from Fred or Janet with a lower price. In either case, he apparently doubted that another 89¢ hamburger shop would succeed.

   Fred, Janet, and Eddie are competing. What does competition mean? For what reasons do businesses compete? How do they compete?

   Competition usually benefits consumers by providing them with a wide range of choices. Consumers reward companies with desirable products by purchasing those products; they punish companies that make inferior goods and services at unreasonable prices. All three are concerned with supply and demand. There is obviously a demand for hamburgers which they wish to supply. Price is an indicator of the relationship of supply and demand. If there is a great demand and a small supply, say for diamonds and other gems, the price is high. If the supply is growing faster than the demand, prices fall.

3. How would Fred, Janet, and Eddie defend their actions?

begin to compete with him? Would you be worried in his position? Why did he finally cut his price to 69¢ instead of just meeting the other's price? IMPORTANT: Is Fred's Burgers really going to lose money by selling 69¢ burgers? What other things does a burger place sell? Fred may hope to compensate his losses on burgers by selling other profitable items like shakes and fries. When he lowered his price, do you think Fred was trying to be an effective competitor, or was he seeking to injure or possibly destroy Janet and Eddie? Now that the price war has gotten out of control, is his desire to compromise understandable?

Janet: Did she initially make a good decision to enter the market? She has gone along first with Eddie's and then Fred's price cuts. Has she lost control of the situation or has everyone lost control?

Eddie: Did Eddie have a right to come in and disrupt the businesses of Janet and Fred? Those who support the free enterprise system would surely agree that he had the right to try. Do you think Eddie was a smarter competitor than Janet or Fred? Or was his strategy conditioned by the market as he found it? Fred probably found it easiest to start his business, because he had no competition. Janet realized the market was big enough for two drive-ins. Eddie found a more complicated situation.

4. What might happen if the "price war" continues?

At some point, either after prices have been lowered still or after a considerable period of time, one or more of the burger stands might be driven out of business. Is it fair that one of the competitors might be driven out of business and lose everything? In this case, the competitors are more or less evenly matched; price reductions in this instance probably would not be considered unfair competition. Free enterprise means the freedom to succeed or to fail. Because the businesses in this case are small and do not operate over state lines, regulatory agencies such as the Federal Trade Commission would not become involved, but state agencies might. In a situation when large companies were involved, unfair competition could take many forms. For example, if Company A cut its prices in Nevada to destroy small, local Company B, but left the prices high elsewhere, either the FTC or Company B might bring Company A to court.

Knowing the risks of a long price war, how would employees of all three burger stands feel about Eddie's suggestion to call off the price cutting?

5. As a customer of the three hamburger places, you would still be paying less than the old price of 89¢ whether the three owners agree to set a price or not. Are there any problems if they meet together?

First, would you rather they all kept charging an even lower price? How would you feel if suddenly one or two of the places went out of business because of the price war? What do you think would happen to the price of hamburgers if only one drive-in were left? (Remember supply and demand.) Does this suggest that artificially low prices are not in consumers' best interests?

The main purpose of Question 5 is to encourage discussion of the consequences of a collapse in competition not through the elimination of competitors but through the end of their desire to compete.

What are Janet, Eddie, and Fred going to talk about at their meeting? Do you think it is likely that they will raise the price to 79¢? What would happen at any subsequent meetings? How likely are they to keep the price at 79¢? What would stop them from raising the price even higher? Would the ultimate result of their collusion be any different if only one drive-in had a monopoly? Do you see some similarities in situations where competitors fail to compete?

What Fred has proposed, and what Eddie had agreed to and Janet is considering, is price-fixing. They are reacting not out of a desire to gouge the public, but to restore some economic order to the ruinously chaotic hamburger market in their area. Nevertheless, once the competitors meet, effective competition ends; it could be only a matter of time before they recognize the unscrupulous advantage of prices at 89¢, 99¢, and higher.

What would happen should a fourth competitor enter the market and refuse to meet with the other three? (a) The price fixers might have to start competing again; or (b) they might temporarily cut prices so drastically as to drive him or her out of business and then return to collusion.

HYPOTHETICAL SITUATIONS:

1. Suppose that instead of small burger stands, the proposed meeting took place between two giant national chains of drive-ins. What do you think the effect of their meetings would be on consumers?

2. Suppose that Fred, Janet, and Eddie want to compete with each other, but don't want to cut prices -- what else can they do?

DISCUSSION GUIDE FOR HAMBURGER WAR II

1. What are some reasons Eddie may have gone out of business?

   Eddie made choices that his consumers did not support -- higher prices and a cheaper grade of beef. He may have started with less financial backing than either Janet or Fred. Thus, when he was faced with more and more debt, he had no choice but to raise prices.

2. How would you feel about this situation if you were Janet? Fred? Eddie? a student?

3. Does anyone have responsibility for Eddie's business failure? Should someone have helped out or is it best that his hamburger stand should close?

   In a free market system, it is assumed that the consumers are better off when those businesses that offer what the consumers desire stay in business. Inefficient or unresponsive businesses will then be eliminated. Does this apply in Eddie's case?

4. Whose business decision do you prefer -- Janet's or Fred's? What are the consequences of their decision?

   Discussion should include the fact that the consequences of their decisions were important to their hamburger business, and also to their families and customers.

5. It is unlikely that Janet and Fred will try to fix prices now. What do you think will happen to the building that used to be the home of Eddie's Burgerland?

   The fast-food market may be saturated in this location and a new type of business could open -- a record store, a gas station, a sporting goods store, etc. What power do the students (consumers) have to control price fixing by Janet and Fred? What could students do if the two hamburger stands raised prices to $1.50 a burger? On the other hand, students may be tired of hamburgers. A taco stand, pizza parlor, or other type of fast-food business could move in. There will still be competition between Janet and Fred, but less competition than before.

THE HAMBURGER WAR

Student Materials

Authors: Phyllis F. Maxey
Stephen C. Meier
Business Issues in the Classroom
Constitutional Rights Foundation
Los Angeles, California
Revised, 1983

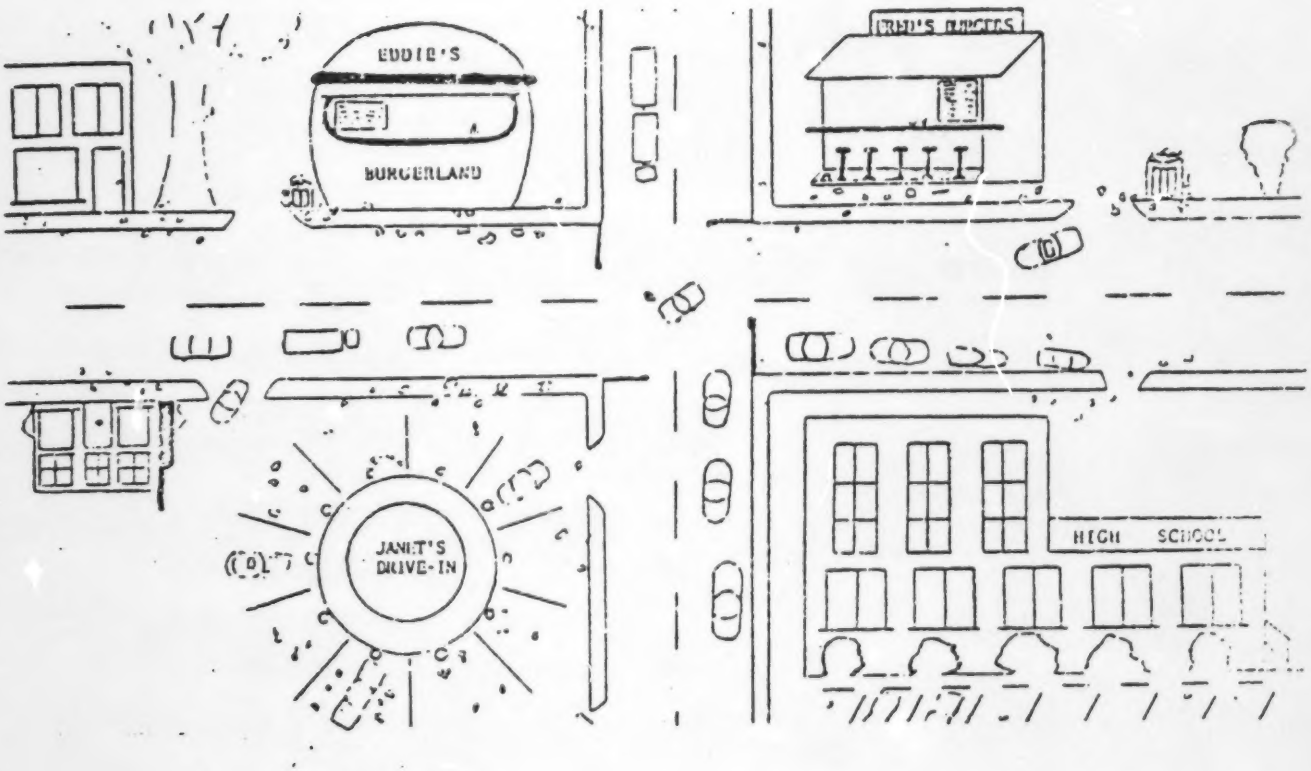
THE HAMBURGER WAR

Businesses share some things in common with us. They are born, they grow, they marry, they divorce, and they die. Trying to avoid dying, some companies run into trouble. They try to avoid the rigors of competition in the marketplace, and in so doing, may engage in unfair practices. Companies try to survive by lessening the risks of doing business. Many of these practices, such as product diversification, are legal. They can result in stronger companies and more stable markets.

In this unit, we will look at business practices, starting with three owner-operated hamburger stands and ending with the break-up of a giant corporation. You will learn what actions are illegal and why, how business is organized so that it can produce and grow, and what role government plays in encouraging competition among business. Readings and activities include:

1. CASE STUDY: Hamburger War I
2. CASE STUDY: Hamburger War II
3. READING: Business Organization
4. NEWSPAPER ARTICLE: "Hamburger War Heating Up"
5. READING: Monopolies and Markets
6. READING REVIEW: Questions to Answer
7. ACTIVITY: Business Practices — What's Fair and What Isn't?
8. CASE STUDY: AT&T Settles Antitrust Suit
9. VOCABULARY WORKSHEET

HAMBURGER WAR I



Fred's Burgers had always done much business near a local high school. Seeing this, a smart competitor opened Janet's Drive-In. Both Fred and Janet sold hamburgers at 89¢ and were doing well. Then one day a third competitor, Eddie's Burgerland, moved in and sold hamburgers for only 79¢.

Soon everyone was going to Eddie's. Then Janet dropped her price to 79¢. Fred was so worried, he lowered his price to 69¢. After both Janet and Eddie lost customers, they finally matched Fred's price. One day Janet got a telephone call from Fred. "Look," he said, "at 69¢ we are all losing money on every burger we sell. I suggest we all meet somewhere and see if we can't agree to raise the price to 79¢. Eddie is willing to come if you are."

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DISCUSSION QUESTIONS:

1. If you were Janet, would you go to the meeting? Why or why not?
2. How and why did this "price war" get started?
3. How would Fred, Janet, and Eddie defend their actions?
4. Did Eddie have a right to come in and disrupt the businesses of Janet and Fred?
5. What might happen if the price war continues?
6. If they were to have the meeting and decide to fix the prices at 79¢, what would prevent them from raising the price even higher?
7. What would happen if a fourth competitor entered the market?
8. Suppose that Janet, Fred, and Eddie want to compete with each other, but don't want to cut prices. What else could they do?
9. Suppose the meeting took place between two giant national chains of drive-ins rather than the small hamburger stands. What do you think the effect of their meeting would be on the consumers?

HAMBURGER WAR II

The meeting with Fred, Janet, and Eddie never happened. They were afraid of giving away too much information about their business operations and they didn't trust the other people. Janet decided to raise her price back to 79¢. She tried to win back customers by offering something extra -- a hot fudge or butterscotch sundae -- for dessert. She was sure the others could not keep that low price of 69¢ for long. Fred decided to fire his manager and work by himself 12 hours a day. He used the money he had paid for his manager's salary to keep the price of the hamburgers at 69¢. Eddie had many bills to pay and could not afford to keep selling hamburgers at a loss. He raised the price to 79¢, used a cheaper grade of beef, and hoped he could survive the price war.

4 MONTHS LATER . . . Janet's strategy seemed to be working. Janet was afraid they would go to one place for hamburgers and then come for sundaes, but the high school students only had a half hour for lunch. By the time they went to their lockers and walked across the street, they had 20 minutes left and went to only one place. Her business was doing very well selling both hamburgers and sundaes.

Fred's Burgers was doing the best business with 69¢ hamburgers, but his home life was becoming a major problem. His wife was angry about the long hours. When she did see him he was tired and grouchy. His children were in bed by the time he came home, and his wife was left with all of the responsibility for their care. He didn't know if he could keep up with this pace or if his family would put up with it long enough for him to make some money.

On Friday a sign went up outside Eddie's Burgerland, "CLOSED -- Out of Business."

DISCUSSION QUESTIONS:

1. What are some reasons why Eddie may have gone out of business?
2. How would you feel about this situation if you were Janet? Fred? Eddie? a student at the high school?
3. Does anyone have responsibility for Eddie's business failure? Should someone have helped out or is it best that his hamburger stand closed?
4. Whose business decision do you prefer -- Janet's or Fred's? Why? What were the consequences of each of those decisions?
5. Is it likely that Fred and Janet will try to fix prices now? What do you think will happen to the building that used to be the home of Eddie's Burgerland?
6. Are the consumers better off now after Hamburger War II?
7. Are the business people better off now?
8. What should happen to the "losers" like Eddie in competitive business situations?

BUSINESS ORGANIZATION

PARTNERSHIPS AND SOLE PROPRIETORS

Each hamburger stand in the Hamburger War case is owned by one individual -- it is a sole proprietorship. The owner is responsible for all debts and gets to keep all the profits. Fred, Eddie, and Janet make their own decisions; they are their own bosses.

If Janet and Eddie decided to combine their businesses, they could form a partnership. They would share the risks, the profits, and the management of the business. Janet could help Eddie by providing additional capital and sharing her skills. They could also run into problems -- disagree about what products to sell, how fast to expand their business, who should do what work. They would most likely draw up an agreement when they create their partnership that spells out the duties of each partner and how profits will be divided. Although this will settle some issues, they may still have management conflicts.

A corporation is the type of business organization that conducts most of the business in our economy. It developed because of the need to raise large amounts of capital, more than most individuals could do alone or as partners. A corporation is chartered by a state and given a certificate of incorporation. It is a legal person -- it can sue and be sued; it has freedom of speech rights; it can "marry" by merging with another corporation.

A corporation's owners are called shareholders or stockholders. The corporation sells shares of stock to investors who want to see that stock increase in value. Investors buy stock in companies that look as if they will make a good profit. If any stockholder is not pleased with the company's performance, he or she can sell the stock. If the company should fail, each stockholder loses the worth of the stock, but nothing more. This is called limited liability and is one of the advantages of corporate organizations over partnerships and proprietorships.

The stockholders elect a board of directors who set the policy for the company. The company is operated by a chief executive and other managers. These actions are reviewed by the board of directors. A large corporation will have various divisions, such as marketing, finance, production, and personnel.

Managers, supervisors, and department heads are responsible for directing the work of employees in the various departments.

In 1981 there were 587,000 new corporations formed in the U. S. $1.3 billion was spent on "Venture Funds" -- money invested in new, untried businesses. A business is started by someone with a good idea and some resources to try out that idea. One or two people started these new and very successful companies: Nike Athletic Shoes, Federal Express, Atari, Apple Computer. When the founders of the business decide to incorporate and expand, they sell shares of stock to the public. They may become millionaires or multi-millionaires from the sale of stock, as investors seek to share in the profits of a new, successful enterprise.

The newspaper clipping on the next page tells the story of two large corporations who began their own hamburger war. McDonald's Corporation and Marriott Corporation took advantage of a drop in the cost of beef to cut prices on hamburgers, and hopefully attract more customers. Notice that Marriott Corporation is a type of business called a conglomerate, a combination of companies in different markets. It owns Roy Rogers restaurants, Big Boy restaurants, and Hot Shoppes, as well as hotels and leisure-time businesses.

D-12 ALBUQUERQUE JOURNAL Friday, August 24, 1979

Hamburger War Heating Up: Roy Rogers Chain Joins Fray

WASHINGTON (AP) — A Hamburger War is being waged on the fast-food fronts across the nation as Roy Rogers restaurants join the McDonald's Corp. in reducing the price of burgers.

"We're crediting the price reduction to a drop in the cost of hamburger meat," said Richard Marriott, group vice president in charge of Marriott restaurant operations.

Marriott announced Thursday that for the first time in the 11-year history of Roy Rogers restaurants, 170 of Marriott's company-owned restaurants would drop the price of quarter-pound hamburgers and quarter-pound cheeseburgers by from four to 10 cents.

The price cut, which will reduce quarter-pound hamburgers to a range of 95 cents to $1.05, will take effect next Tuesday, according to Roger Conner, spokesman for the $1.5 billion Mariott Corp., a Bethesda, Md., based-company specializing in hotels, restaurants and leisure-time activities.

Conner added that quarter-pound cheeseburgers will cost anywhere from $1.05 to $1.15.

Price cuts vary with restuarant locations, and most Roy Rogers restaurants are in the eastern United States, Conner said.

The price reductions will not affect food items sold in the corporation's 71 independently owned Roy Rogers franchises or other Marriott restaurants, which include Big Boy Restaurants of America and Hot Shoppes, Conner said. "We're monitoring our Roy Rogers restaurants before making any other decisions," he said.

Spokesmen for other major hamburger chains, such as Wendy's International, Burger King Corp. and Gino's, Inc., said they had no plans to join the skirmish.

The first indications of a possible hamburger war came last Sunday when McDonald's Corp., America's biggest fast food chain, announced that it would cut its hamburger and cheeseburger prices by a nickel.

McDonald officials in the company's Chicago headquarters said the cut was possible because of a slight decrease in the cost of their commodities, particularly beef.

"It gives us the possiblity to pass some savings to our customers ... to give our customers a break in the inflation cycle," said McDonald's spokesman, Doug Timberlake.

There was no immediate comment on the second stage of the hamburger war from President Carter's chief inflation fighter, Alfred E. Kahn. However, last Monday, Kahn praised McDonald's initiative, saying it would save the firm's customers millions of dollars.

"It is enormously heartening to me when some Americans recognize their prices are supposed to go down at times as well as up," Kahn said.

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MONOPOLIES AND MARKETS

It may be hard for us to imagine, but Americans have not always been surrounded by millions of consumer products produced and marketed by national corporations. Small business used to be the typical type of business organization in the early years of our nation. Markets for products were local or regional because there were no national highways or railroads, no refrigeration processes for long-distance shipping, no factories capable of mass producing enough for the whole country.

From these beginnings came the American values of individualism, freedom, small government, saving (rather than spending) one's earnings, and investing in one's own business. With the Industrial Revolution and mass production, new types of business organizations and new working conditions developed. We were no longer a nation of small producers, but a nation of consumers buying many products advertised and manufactured by big businesses. The midwestern farm family shopped for the latest fashions and appliances through the Sears catalogue rather than being restricted to the small shops in nearby towns. Immigrants and farm families were pouring into the cities, creating a big labor supply for the expanding industries, but weakening workers' bargaining power to improve wages and working conditions.

TRUSTS

One type of business organization that developed during the 1880's was the trust. In order to survive in the fiercely competitive atmosphere of the times, a group of corporations that were normally competitors would join together so that all could survive. The businesses exchanged their voting shares of stock for the nonvoting shares of stock in a trust. The trust was run by a group of financial managers from some of the individual companies in the trust. The industry's market was divided so that each could earn a profit. Small companies either joined the trust or were driven out of business. With its great financial power, the trust could temporarily lower prices so that a small business could not possibly compete. Once the uncooperative competitor was eliminated the trust could then raise prices. It had a monopoly.

ANTITRUST LAWS

A monopoly occurs when competition is intentionally stopped, thus allowing one firm or a small group of firms to control a market and set prices. Such monopoly power is now illegal. Beginning with the Sherman Antitrust Act of 1890, laws were passed to protect competition. The Clayton Act outlawed specific practices that lessen competition, such as tying contracts requiring a customer to buy one product in order to get another product from the same supplier. The Federal Trade Commission Act of 1914 created a government regulatory agency, the Federal Trade Commission (FTC), to enforce antitrust laws.

A merger is the combination of two or more businesses into one. The dominant company or surviving company issues its stock to shareholders of the other business which is no longer in existence. A consolidation is a merger in which a new third company is created out of two or more businesses. The merger is a way for companies to grow, but it can also be a way to reduce competition. In 1950 the Anti-Merger Act was passed which made it illegal for companies to merge if by doing so, they would control 30% or more of the market.

In addition to the Federal Trade Commission, another government agency also enforces antitrust laws. The Justice Department's Antitrust Division prosecutes businesses involved in anticompetitive mergers and other illegal practices. We will look at a recent case in which AT&T settled an anti-trust suit filed by the Justice Department in 1974.

THE MARKET SYSTEM

Competition is a vital force in a market system. When businesses compete for customers, they have a powerful motivation for offering a fair price, a good product, and quality service. Otherwise they lose business to their competition. New processes that are more efficient and economical evolve through this competition. New products are developed to better meet consumer demand, thus expanding our choice of goods and services. A desire to preserve this competition is the reason for the creation of antitrust laws.

READING REVIEW

To check your understanding of the reading, answer the following questions.

1. How does a corporation differ from a sole proprietorship and a partnership?
2. Why would a person want to buy a corporation's stock?
3. What is a conglomerate? Can you name any corporations that are conglomerates?
4. What is a trust? How did trusts eliminate their competitors?
5. What are antitrust laws?
6. What are the two government agencies that enforce antitrust laws?

BUSINESS PRACTICES: WHAT'S FAIR AND WHAT ISN'T?

Here are examples of four different business practices. Decide if you think each practice violates antitrust laws by restricting competition.

1. Kellogg, General Mills, and General Foods hold 80% of the ready-to-eat cereal market. They share several business practices: heavy advertising, constant introduction of new products, and dominant shelf space in supermarkets. Is this an illegal monopoly because it makes it difficult for other companies to enter the cereal business?

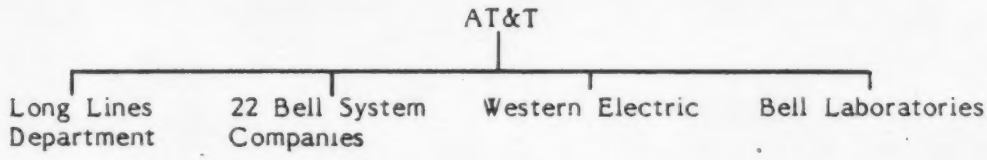
2. Apple Computer was the first company to develop the personal computer business. In its first four years it had the field practically to itself. Is this an illegal monopoly?

3. What if due to depressed car sales, Ford, Chrysler, and General Motors decide to divide up the market for cars? Ford will emphasize subcompacts, Chrysler will emphasize luxury full-sized cars, and General Motors will concentrate on compact family cars. Would this practice be illegal?

4. The U. S. has three giant "dingbat" makers. Two of the dingbat makers, Companies A and B, want to merge into one big company. The market would then look like this: American Companies A and B who have merged have 20% of the dingbat sales; Company C has 30%; Japanese Company D has 40%; German Company E has 10%. Is the merger a violation of antitrust laws?

AT&T SETTLES ANTITRUST SUIT

American Telephone and Telegraph (AT&T) was the largest holding company in America. But it has just become smaller due to a settlement worked out between the Justice Department, AT&T, and a federal judge. A holding company is a corporation created for the purpose of buying stock in other corporations. A controlling interest in another company's stock is usually 51% of the voting stock. The controlling company is called the parent company and the companies it controls are subsidiaries:



This giant company controlled 97% of the nation's telephone service, employed one million people, and had a net income in 1981 of $6.9 billion.

In 1974 the U.S. Government's Justice Department brought an antitrust law suit against the company, charging AT&T with monopolizing telephone service in the U.S. by keeping competitors out of the industry. Because of the agreement worked out between the government and the company, the Justice Department asked Judge Harold Greene to dismiss the case. At that point, AT&T had spent $360 million on its defense and the government's case cost $15 million. But the judge refused to drop the case until some further "pro-competitive" changes were made in the agreement. AT&T agreed to the judge's changes.

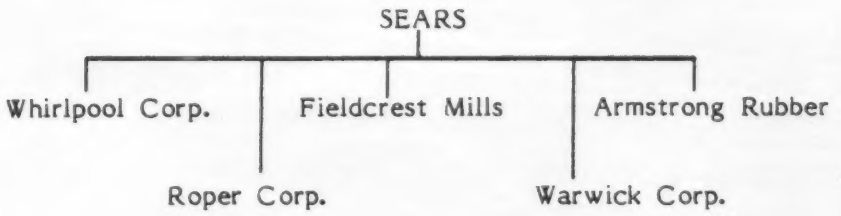
The antitrust settlement breaks up the giant corporation in the following ways:

1. Within one year, the company will sell its 22 Bell System Companies, either individually or as one unit.
2. The company will keep Bell Laboratories (research), Western Electric (manufacturing) and Long Lines Department (long distance telephone service).

3. AT&T will let the local companies keep the $3 billion from Yellow Pages directories.
4. The company is barred from entering the new field of electronic publishing for at least 7 years.
5. AT&T is free to move into the unregulated fields of data processing and computer equipment.

DISCUSSION QUESTIONS

1. What is a holding company?
2. Telephone companies are public utilities regulated by the government. Why is this government regulation necessary?
3. Who was involved in the antitrust settlement besides the corporation and the Justice Department?
4. The 22 Bell System companies brought in half of AT&T's incomes. When the parent company sells these subsidiaries, what could it do with the money?
5. In the example below, who is the holding company? Who are the subsidaries?



6. What is the purpose of forming a holding company?
7. Do holding companies increase or decrease competition in the marketplace?

VOCABULARY WORKSHEET

Place the correct word next to its definition:

STOCK	MARKET	HOLDING COMPANY
CONGLOMERATE	TRUST	SUBSIDIARY
MONOPOLY	MERGER	INVESTOR

_____ 1. a place where goods can be sold, or a particular group of buyers.

_____ 2. an illegal monopoly

_____ 3. shares of ownership in a corporation

_____ 4. a company controlled by a holding company

_____ 5. a combination of companies in different markets

_____ 6. a combination of two or more businesses into one

_____ 7. the result of intentionally stopping competition

_____ 8. one who buys stock or land to make a profit

_____ 9. A corporation created for the purpose of buying stock in other corporations

Give a few examples of each of the following:

antitrust laws:

monopolies:

types of business organization:

corporations (name 5 corporations that you know of):